Federal-State Joint Board on Universal Service
CC Docket No. 96-45

Presentation to
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Office of Commissioner Jonathan Adelstein

by
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Overview

- Universal service reforms should focus on consumers, the intended beneficiaries of universal service.

- CTIA supports the establishment of voluntary eligible telecommunications carrier (ETC) designation guidelines.

- The FCC must reject proposals that would unlawfully discriminate against competitors in the receipt of high-cost universal service support and would not effectively address broader concerns about fund growth.

- The FCC should consider fundamental reforms to the underlying high-cost universal service mechanisms to better fulfill the Act's universal service goals.

Wireless Carriers Provide Vital Benefits to Rural Consumers

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- CMRS providers continue to receive only approx. 7% of high-cost support.
- CMRS providers are the only competitive providers of high-quality, affordable, and facilities-based telecommunications services in rural areas.
- Wireless deployment in rural areas has occurred, in part, because of competitively neutral access to high-cost and low-income universal service support.
- Wireless eligible telecommunications carriers (ETCs) have brought universal service to rural and insular areas that have traditionally been underserved or unserved by incumbent LECs.
- Due to geographic isolation, topography, and other factors, the cost of providing wireless service in rural areas is typically higher than in urban areas.
- To facilitate wireless deployment in rural areas, competitors should have nondiscriminatory access to universal service support.

The Telecommunications Act of 1996

- Section 254: "<u>Consumers</u> in all regions of the Nation . . . should have access to telecommunications and information services . . . that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas."
  - The Act demands sufficient support for *consumers*, the intended beneficiaries of universal service, not *providers*.
  - *Excessive* support can violate the *sufficiency* requirement in the Act.
  - As long as the other requirements of the Act are satisfied, "[t]he act does not guarantee all local telephone providers a sufficient return on investment."
- Universal service "must treat all market participants equally – for example, subsidies must be portable – so that the market, and not local or federal regulators, determines who shall compete for and deliver services to customers."
  - The principle of competitive neutrality "is made necessary not only by the realities of competitive markets but also by statute."

CTIA Supports Voluntary ETC Designation Guidelines

- The FCC and states generally do a good job processing ETC petitions.
- <u>Voluntary</u> guidelines that go no further than Virginia Cellular could aid states in evaluating whether an ETC designation is in the public interest.
- The FCC should expeditiously process ETC petitions. CTIA is encouraged by recent progress in this area.
- The rules should be modified so that competitive ETCs immediately begin receiving support upon designation.
- Any new ETC guidelines should not be retroactively applied to certified ETCs.

The FCC Should Reject Proposals that Discriminate Against Wireless Carriers (cont'd)

- There is no basis for giving competitors less per line support than is available to the incumbent. Such proposals would distort the competitive marketplace.
- There is no basis for limiting the number of USF recipients in rural areas – which would only reward incumbent LEC inefficiency.
- There is no basis for imposing equal access obligations on wireless ETCs given the extent of competitive choice in both rural and urban areas.
- There is no basis for refusing to designate competitive ETCs below the study area level.
- Requiring prospective ETCs to demonstrate financial resources is not competitively neutral and is unnecessary.

The FCC Should Focus on Fundamental Reform

- The FCC should consider fundamental reforms to the underlying high-cost universal service mechanisms to better fulfill the Act's universal service goals.

- Problems with the FCC's High-Cost Universal Service Mechanisms:

  – Incentives for incumbent LEC inefficiency.

  – Illogical distribution of support.

  – Impenetrable administrative complexity.

CTIA High-Cost Reform Proposal

- Transition to a single, unified high-cost universal service mechanism based on forward-looking economic costs that reduces the need for universal service subsidies over time, while ensuring that both incumbents and competitors in high-cost areas continue to have competitively-neutral access to support.

- This would mean less support for both incumbents and competitors.

- Ensure that carriers are able to recover losses resulting from this transition from end-user customers (*i.e.*, through higher subscriber line charges or other end-user charges).

CTIA High-Cost Reform Proposal (cont'd)

- Effective July 1, 2006, the FCC should adopt the following short-term measures
  - Move all incumbent LECs, that, along with their affiliates, have 50,000 or more access lines in a state to support based on forward-looking economic costs.
  - Modify the existing embedded cost mechanisms:
    - Remove non-loop costs such as risk-related profits and Corporate Operations Expenses from the high-cost support mechanisms.
    - Reduce the threshold to qualify for local switching support from 50,000 access lines in a state to a lower number and/or limit support to those incumbent LECs with higher than average switching costs.
    - Place a freeze on further growth in embedded high-cost support while the FCC implements long-term reforms.
- Under long-term reform, the FCC should
  - Transition all remaining incumbent LECs to a unified forward-looking high-cost support mechanism.
  - Consider developing a high-cost mechanism that directs equal per-line support to both incumbent and competitive ETCs based on the costs of the most efficient technology in a selected area.
- The FCC must devote adequate resources and set firm deadlines for reform.